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Diana T Fritz 06/05/2007 10:42:07 AM From DB/Inbox: Search Results

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SIPDIS  
TELEGRAM

February 02, 2003

To: No Action Addressee  
Action: Unknown  
From: AMEMBASSY ABU DHABI (ABU DHABI 526 - UNKNOWN)  
TAGS: ECON, EFIN, EINV, PGOV  
Captions: None  
Subject: SHOW ME THE MONEY: INSIGHTS INTO THE UAE BUDGET  
Ref: None

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C O N F I D E N T I A L ABU DHABI 00526

SIPDIS  
CXABU:  
ACTION: ECON  
INFO: P/M AMB DCM POL  
Laser1:  
INFO: FCS

DISSEMINATION: ECON  
CHARGE: PROG

APPROVED: A/DCM: TWILLIAMS  
DRAFTED: ECON: CCRUMPLER  
CLEARED: NONE

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FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8188  
INFO RUEHZM/GCC COLLECTIVE  
RUEAWJA/DOJ WASHDC  
RUCPDOC/USDOC WASHDC  
RUEATRS/TREASURY DEPT WASHDC  
RHEHNSC/NSC WASHDC  
RUEAIIA/CIA WASHDC  
RHEFDIA/DIA WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000526

SIPDIS

STATE FOR EB, NEA/ARP AND NEA/RA  
DOJ FOR T. GREENBERG  
COMMERCE PASS TO C. LOUSTAUNAU  
TREASURY PASS FEDERAL RESERVE  
NSC FOR J. MYERS

NOFORN

E.O. 12958: DECL: 02/01/2013  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [TC](#)  
SUBJECT: SHOW ME THE MONEY: INSIGHTS INTO THE UAE BUDGET

- 1.(U) Classified by A/DCM Tom Williams for reasons 1.5 (b) and (d).
- 2.(C) Summary and comment: Like so many countries in this part of

the world, the UAE does not publish reliable or complete fiscal data. Only the federal budget -- which accounts for about a quarter of the consolidated fiscal position -- is publicly available. According to the IMF, errors and omissions in the budget averaged 13 percent of GDP in the 1990s. A/DCM and Econoff met with Undersecretary of the Abu Dhabi Department of Finance Ju'an Salem Al-Dhaheeri on January 27 (the emirate of Abu Dhabi accounts for more than half of the UAE's total GDP and is the major contributor to the federal budget) to glean some insight into the budget-making process. In a surprisingly candid meeting, Al-Dhaheeri admitted that ADIA's significant investment income does not factor into the budget. He commented on the Abu Dhabi Finance Department's own investments, which include lucrative holdings in the local real estate market.

13. (C/NF) Summary and comment continued: Al-Dhaheeri noted that the UAEG would have "no problem" financing the budget deficit this year but admitted that investment income had taken a hit the last few years due to the sagging global economy. Luckily, only 70 percent of the budget is actually spent each year and this year some projects are being delayed -- beneficial because the Abu Dhabi budget operates on a pay-as-you-go system. End summary and comment.

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Counting The Revenue...  
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14. (C/NF) Al-Dhaheeri noted that the Finance Department works with ADNOC -- the Abu Dhabi National Oil Company -- to determine the average oil price for the budget, and estimate oil revenue for the coming year. The Finance Department generally takes a conservative stand on oil price assumptions and tends to factor in a lower-than-realistic oil price for safe measure. The assumed oil price is adjusted quarterly, using the rolling average oil price during the last three quarters as a basis.

15. (C/NF) The Abu Dhabi Finance Department does not factor the investment income from Abu Dhabi Investment Authority's (ADIA) significant foreign assets into the budget or consider it revenue. (Note: In reality, ADIA operates as a stand-by source of petty cash -- and not so petty cash -- for Abu Dhabi, and the organization maintains a certain percentage of liquid investments in order to meet the unpredictable demands of financing the federal budget deficit, large military purchases, and other sensitive projects outside the regular budget. End note.) Al-Dhaheeri emphasized that the UAEG finances its budget deficit each year from ADIA, not from the domestic banks like some other countries in the region. He noted that the habit in the region of laying off government debt on local banks is bad for business, and bad for the financial reputation of the country.

16. (C/NF) Al-Dhaheeri mentioned that -- separate from ADIA -- the Abu Dhabi Finance Department invests in local real estate and counts this income as budget revenue; the Department receives an average rate of return of 15 percent on real estate in Abu Dhabi, and 10 percent respectively in Dubai. Al-Dhaheeri believes that the current practice in Dubai of providing long-term leases (up to 99-years) to foreigners unnecessarily invites competition into the market and depresses investment returns on real estate. Al-Dhaheeri perceives that foreigners circumvent the law requiring that they and they alone occupy the properties for which they have purchased long-term leases, and instead sublet their properties to others, in effect creating unnecessary (and unplanned) competition for UAE nationals.

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...And Limiting Expenditures  
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17. (C/NF) Many expenditures are omitted from the budget, including transfers from Abu Dhabi to the northern emirates as well as transfers of foreign aid abroad. Abu Dhabi budgets for all federal programs -- education, health, highway infrastructure, for example -- in Dubai and the northern emirates, but Al-Dhaheeri confirmed that most transfers from Abu Dhabi to the northern emirates occur outside of the budget and are authorized by Sheikh Zayid himself. Sheikh Zayid also generously grants foreign aid to countries without consideration of the budget, suggesting that his extra-budgetary outlays are funded prior to all others.

¶8. (C/NF) Al-Dhaheri is keen to balance the federal budget during his tenure at the Finance Department, and cut back on government waste. He noted that Abu Dhabi departments -- the spendthrifts of the UAE -- use only about 70 percent of the monies allocated to them each fiscal year. They are automatically provided inflated budgets, but do not have the capacity to absorb all of the projects slated for the year.

¶9. (C/NF) Specific projects, which lie outside the budgets of individual departments, are sometimes delayed to reduce the federal government's fiscal deficit. Al-Dhaheri intimated that the Finance Department follows cash-basis accounting procedures -- costs are subtracted in the period in which they are paid for by cash disbursements (when payment for projects is due), rather than allocated in advance for the fiscal year. This method allows the UAEG to simply postpone large projects until the next fiscal year if oil prices suddenly drop and revenues are less than expected. Al-Dhaheri also confirmed that projects in Abu Dhabi receive priority over projects in other emirates.

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